

BellSouth Telecommunications, Inc.  
Legal Department  
1600 Williams Street  
Suite 5200  
Columbia, SC 29201

patrick.turner@bellsouth.com

Patrick W. Turner  
General Counsel-South Carolina

803 401 2900  
Fax 803 254 1731

December 31, 2003

The Honorable Bruce Duke  
Acting Executive Director  
Public Service Commission of South Carolina  
Post Office Drawer 11649  
Columbia, South Carolina 29211

Re: Proceeding to Establish Guidelines for an Intrastate Universal Service Fund  
Docket No. 97-239-C

Dear Mr. Duke:

Enclosed for filing are an original and twenty-five copies of the pre-filed direct testimony and exhibits of BellSouth Telecommunications Inc. witnesses Kathy K. Blake, Robert McKnight, and J. Edward Matejick in the above-captioned matter. By copy of this letter, I am serving all parties of record with a copy of these documents as indicated on the attached Certificate of Service.

As explained in the attached testimony, BellSouth's proposed tariff is part of the Second Phase of the implementation of the intrastate Universal Service Fund ("State USF"). BellSouth's proposed tariff reduces rates for intrastate Feature Group D switched access service in order to remove a portion of the implicit support that is provided for universal service. The Public Service Commission of South Carolina ("Commission") previously has found that "[i]ntrastate switched access rates are priced above cost," that these rates "contain significant implicit support for basic local exchange telephone service," and that "[a]ccess service is particularly susceptible to bypass and competitive erosion."<sup>1</sup>

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<sup>1</sup> See Order on Universal Service Fund, *In Re: Proceeding to Establish Guidelines for an Intrastate Universal Service Fund*, Order No. 2001-419 in Docket No. 97-239-C at p. 34 (June 6, 2001).

Both the existing rates for this service and the proposed rates in BellSouth's tariff are above the UNE rates for the network components of the service. As Mr. McKnight explains in his testimony, this means that these rates also exceed the Total Service Long Run Incremental Costs of the service. Even after BellSouth's proposed rate reductions are implemented, therefore, its rates for Feature Group D intrastate switched access service in South Carolina will continue to be priced above cost. Moreover, BellSouth's proposed rates for intrastate switched access service in South Carolina are closely aligned with BellSouth's interstate switched access rates and with BellSouth's intrastate switched access rates in other states in the BellSouth region. The proposed South Carolina rates are lower than the rates in 3 states and higher than the rates in 5 states.

Consistent with the Commission's State USF Guidelines and Administrative Procedures, BellSouth is requesting explicit funding from the State USF in an amount equal to the reduction in intrastate switched access revenues that results from these proposed rate reductions. This amount of \$7.991 million is explained in the testimony of BellSouth witness Edward Matejick.<sup>2</sup> The \$7.991 million that BellSouth seeks to withdraw from the State USF in this proceeding, when combined with the \$22.760 million that BellSouth is already withdrawing from the State USF, will result in BellSouth's withdrawing a total of \$30.751 million from the fund. This is only 18% of the \$171 million that represents the BellSouth-specific size of the State USF.<sup>3</sup>

The Commission's State USF Guidelines provide that "[t]he Commission-approved costs of providing universal service on a per line basis for any particular LEC should remain in place until such time as that LEC's State USF withdrawal exceeds one-third of its company-specific State USF amount."<sup>4</sup> Even after BellSouth's proposed tariff goes into effect, BellSouth's State USF withdrawal will represent less than 20% of its company-specific State USF amount. BellSouth, therefore, is not required to submit updated cost studies in this proceeding.

Finally, in compliance with the Commission's State USF Guidelines, BellSouth's proposed rate reductions will be revenue neutral to BellSouth upon implementation of the Second Phase of the State USF.<sup>5</sup> BellSouth is reducing prices for intrastate switched access services that include implicit support for universal service. These reductions will reduce BellSouth's revenue by \$7.991 million annually, and that is the additional amount that BellSouth seeks to recover from the State USF.

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<sup>2</sup> As a result of the correction of a calculation error, this amount is slightly lower than the \$8.117 million amount that is set out BellSouth's tariff filing package of September 2, 2003.

<sup>3</sup> If the \$716,000 in Lifeline funding that BellSouth is receiving is considered as well, BellSouth will be withdrawing a total of \$31.467 million from the State USF. This is only 18.4% of the \$171 million that represents the BellSouth-specific size of the State USF.

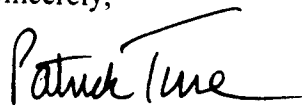
<sup>4</sup> Guidelines at p.8, §9.

<sup>5</sup> Guidelines at p. 3, §4.

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BellSouth, therefore, respectfully requests that the Commission: (1) find that the tariff BellSouth filed in this docket on September 2, 2003 complies with the Commission's State USF Guidelines and Administrative Procedures; (2) approve BellSouth's tariff filing of September 2, 2003 with an effective date of March 1, 2004; and (3) allow BellSouth to withdraw an additional \$7.991 million from the State USF.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick W. Turner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Patrick W. Turner

PWT/nml  
Enclosure  
cc: All Parties of Record  
PC Docs # 520038